



# PHAUNOS TIMBER FUND LIMITED

INTERIM FINANCIAL REPORT

For the six months ended 30 June 2011 (Unaudited)



# CONTENTS

Interim Management Report	1
Responsibility Statement	10
Interim Condensed Consolidated Statement of Comprehensive Income	12
Interim Condensed Consolidated Statement of Financial Position	13
Interim Condensed Consolidated Statement of Cash Flows	15
Interim Condensed Consolidated Statement of Changes in Equity	17
Notes to the Interim Condensed Consolidated Financial Statements	19
Schedule of Investments	32
Shareholder Information	33
Directors and Service Providers	34



Thinning of loblolly pine, Aurora Forestal, Uruguay.



# INTERIM MANAGEMENT REPORT

Phaunos Timber Fund Limited (“Phaunos” or the “Company”) is pleased to present its Interim Financial Report (“interim financial report”) for the six months to 30 June 2011 (the “period”). The Company is an Authorised Closed-ended, Guernsey based, investment scheme managed by FourWinds Capital Management (the “Investment Manager”) established to invest in timber and timber related assets on a global basis.

## HIGHLIGHTS

	<b>30 June 2011 (unaudited)</b>	<b>31 Dec 2010 (audited)</b>	<b>30 June 2010 (unaudited)</b>
Net Asset Value	US\$621.6 million	US\$594.9 million	US\$560.5 million
Unadjusted NAV per Ordinary Share	US\$1.16	US\$1.11	US\$1.04
Profit/(Loss) for the period/year	US\$27.7 million	US\$20.7 million	(US\$8.2 million)
Earnings/(Loss) per Ordinary Share	5.15 cents	3.98 cents	(1.64 cents)

- The Company paid its first dividend for the twelve months ended 31 December 2010 of US\$0.02 gross per ordinary share of the Company (“Ordinary Share”) on 15 July 2011. Accordingly a total dividend of US\$10.7 million has been accrued at 30 June 2011 in respect of that post period-end payment.

## FINANCIAL RESULTS FOR THE PERIOD

The total unaudited NAV of the Company at 30 June 2011 was US\$621.6 million (31 December 2010: US\$594.9 million). This equates to a NAV of US\$1.16 per Ordinary Share (31 December 2010: US\$1.11 per Ordinary Share).

A summary of the major drivers in the movement of the Company’s NAV for the period is as follows:

- Unrealised gains on the revaluation of financial assets, excluding foreign exchange, for Matariki Forestry Group of US\$16.8 million. Unrealised gains on the revaluation of land and biological assets, including foreign exchange, for Mata Mineira of net US\$5.7 million. Other investments such as Aurora Forestal, Greenwood Tree Farm and Pradera Roja also had modest valuation gains.
- Total foreign exchange gains, both realised and unrealised, for the period of US\$30.0 million were attributable to the continuous weakening of the US Dollar against the New Zealand Dollar, the Norwegian Krone and the Brazilian Real, which positively affected the valuation of investments in Matariki, Green Resources, Eucateca and Mata Mineira.
- Operating expenses totalling US\$23.3 million are in line with expectations given the different stages of the plantations’ development and life cycle. These include an accrual of US\$8.2 million for a potential performance fee, if the current period’s results are maintained in the 2011 audited year-end NAV, as well as fund level expenses and operating expenses attributable to some plantation operations. Discussions have begun between the Board and the Investment Manager to explore whether a different fee basis would align better for the interests of all stakeholders.





## FINANCIAL RESULTS FOR THE PERIOD CONTINUED

The following table presents a summary of the movement in the unaudited NAV during the period:

Company	NAV Ordinary Shares 31 Dec 2010 (audited) US\$'000	Acquisitions/ (Return of funds) US\$'000	Unrealised Gain/(Loss)				Foreign Exchange Translations Differences US\$'000	Realised Foreign Exchange US\$'000	Movement in retained earnings US\$'000	NAV Ordinary Shares 30 Jun 2011 (unaudited) US\$'000	% of NAV 30 Jun 2011 (unaudited)
			Valuation US\$'000	Land US\$'000	Biological Assets US\$'000	Foreign Exchange US\$'000					
Phaunos Timber Fund Limited	40,175	3,693	-	-	-	28	(10)	(23,121)	20,765	3.34	
<b>Total Phaunos Timber Fund Ltd</b>	<b>40,175</b>								<b>20,765</b>		
Matariki Forestry Group	147,142	-	16,751	-	-	-	-	-	174,193	28.02	
Green Resources AS	96,058	-	-	-	-	8,225	-	-	104,283	16.78	
GreenWood Tree Farm Fund LP	35,843	818	608	-	-	-	-	-	37,269	6.00	
Aurora Forestal Limited	33,830	-	717	-	-	-	-	-	34,547	5.56	
NTP Timber Plus+ Fund I, LP	10,807	-	114	-	-	-	-	-	10,921	1.76	
<b>Total Minority-owned investments</b>	<b>323,680</b>								<b>361,213</b>		
Masarang Foundation <sup>1</sup>	-	-	-	-	-	-	-	-	-	-	
<b>Total Loans and Deposits</b>											
Mata Mineira Investimentos Florestais Ltda	96,435	1,200	-	(1,715)	7,435	-	-	(682)	108,921	17.52	
Eucateca SA	65,526	-	-	-	(296)	-	-	(1,570)	67,753	10.90	
Pradera Roja SA	31,050	850	-	(58)	1,078	-	12	(221)	32,711	5.26	
Green China Forestry Company Ltd	19,929	-	-	-	(189)	-	89	(653)	19,110	3.07	
Other operating subsidiaries <sup>2</sup>	18,128	(6,561)	-	-	-	-	(119)	(1,555)	11,118	1.79	
<b>Total Operating Subsidiaries</b>	<b>231,068</b>								<b>239,613</b>		
<b>NAV of Ordinary Shares</b>	<b>594,923</b>	<b>-</b>	<b>18,190</b>	<b>(1,773)</b>	<b>8,028</b>	<b>18,525</b>	<b>(28)</b>	<b>(27,802)</b>	<b>621,591</b>	<b>100.00</b>	
<b>Total Foreign Exchange Gains</b>							<b>30,025</b>				

<sup>1</sup>The Board has reviewed the loan to Masarang Foundation ("Masarang") and concluded it prudent to keep the provision against the full value, given the uncertainty surrounding the ability of Masarang to repay. As a result, the investment in Masarang is valued at nil at 30 June 2011 and has been since 31 December 2009. The loan is not yet due and is therefore not yet in default.

<sup>2</sup>Includes the financial results for Caldrey SA, Forest Enterprises doo, SC Romfor Timber SRL ("Romfor") and BaltFor Timber OU ("BaltFor") for the period. The majority of Romfor's capital was returned to Phaunos during the period as it is intended to liquidate the subsidiary by 31 December 2011. The liquidation and return of capital for BaltFor will complete in Q3 2011.

## PORTFOLIO SUMMARY

Company	Description	Geography	% of Ownership	% of NAV 30 June 2011 (unaudited)
1. Matariki Forestry Group	Mixed age pine plantations, six estates, currently with 183,000 hectares	New Zealand	Minority holding	28.02
2. Mata Mineira Investimentos Florestais Ltda	Mature and mixed age eucalyptus plantations in Minas Gerais, Brazil, currently with over 19,000 hectares	East Central Brazil	100.00	17.52
3. Green Resources AS	Mixed age, mixed species plantations, currently with 21,300 productive hectares and rights to plant more than 200,000 hectares	East Africa	Minority holding	16.78
4. Eucateca SA	Greenfield teak and eucalyptus plantations in Mato Grosso, Brazil, currently with 17,150 hectares	West Central Brazil	100.00	10.90
5. GreenWood Tree Farm Fund LP	Three mixed age hybrid poplar tree farms with 35,000 acres integrated with a new sawmill	NW USA	Minority holding	6.00
6. Aurora Forestal Limited	Joint venture in a sawmill and mixed age pine plantations, currently with 19,500 hectares	Northern Uruguay	Minority holding	5.56
7. Pradera Roja SA	Greenfield plantation project for fast growing eucalyptus, currently with 12,000 hectares	Southern Uruguay	100.00	5.26
8. Green China Forestry Company Ltd	Mixed age pine and fir plantations, currently with 6,500 hectares	China	100.00	3.07
9. NTP Timber Plus+ Fund I, LP	"Higher-and-better-use" timberland conversion	SE USA	Minority holding	1.76
10. Forest Enterprises doo	Pellet fuel plant using waste wood	Serbia	100.00	1.29
11. Caldrey SA	Timber harvesting company	Southern Uruguay	100.00	0.42
12. Masarang Foundation	Loan: commercial forestry project with social and environmental goals	Indonesia	100.00	- <sup>3</sup>
13. Other <sup>4</sup>	Cash reserves held for committed projects and working capital	Europe	100.00	3.42
		<b>Total Portfolio Value</b>		<b>100.00%</b>

<sup>3</sup>The Board has reviewed the loan to Masarang and concluded it prudent to keep the provision against the full value, given the uncertainty surrounding the ability of Masarang to repay.

<sup>4</sup>Includes cash reserves held at the Company level and by Romfor Timber and BalFor Timber.

### PORTFOLIO SUMMARY CONTINUED

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The Investment Manager, FourWinds Capital Management, is pleased to report on Phaunos' achievements, activities and developments during the six months ended 30 June 2011.

**Matariki Forestry Group ("Matariki"):** The Company owns a significant minority position in Matariki. The value of the Company's investment in Matariki was up 18.38% at 30 June 2011, including the effect of foreign currency valuation, but excluding income distributions received by Phaunos from Matariki. Harvesting operations are on-going for the properties, and Phaunos received total distributions of US\$1.4 million from Matariki during the period. Matariki is in the process of completing its Forest Stewardship Council ("FSC") certification. It is currently at 38% certification and anticipates 100% certification by year end 2011. Since 30 June 2011, Phaunos has received an additional distribution from Matariki of US\$2.5 million.

**Mata Mineira Investimentos Florestais Ltda ("Mata Mineira"):** The Company owns 100% of Mata Mineira. The value of Mata Mineira was up 11.56% at 30 June 2011, including the effect of foreign currency valuation. The Brazilian Real value of Mata Mineira's property, in Minas Gerais, Brazil, was up by 6.23% at 30 June 2011. Harvesting operations are on-going for the properties, which are generating cash flow for implementing capital improvements on the property, including improvement of timberland. Mata Mineira has begun the process of FSC certification.

**Green Resources AS ("Green Resources"):** The Company owns a significant minority investment in Green Resources, which consists of mixed age, mixed species plantations with a sawmill and two pole plants in East Africa. Green Resources consists of both cash-generating operations and significant greenfield opportunities. Aggressive planting and tightening capital markets have led to a short term cash shortfall at Green Resources. Green Resources is in the process of securing interim and long term financing to minimise any disruption in operations.

The value of the Company's investment in Green Resources was up 8.56% at 30 June 2011, due entirely to the effect of foreign currency on revaluation of the investment. Green Resources' plantations are roughly one-third FSC certified, with plans for 100% certification.

**Eucateca SA ("Eucateca"):** The Company owns 100% of Eucateca, a greenfield project in Mato Grosso, Brazil. Harvesting operations are expected to commence in 2015, and discussions have already begun with potential buyers. Mato Grosso, where Eucateca is located, has exceptional conditions for growing trees: high rainfall rates, abundant sunlight, and highly productive soil. New general management on the ground is focused on cost control and improved silvicultural practices. New railroad tracks and facilities have been built adjacent to our largest property, which we anticipate will help reduce shipping costs. Eucateca plans to seek FSC certification before harvesting begins.

The value of the Company's investment in Eucateca was up 3.4% at 30 June 2011, including the effect of foreign currency valuation. The Brazilian Real value of Eucateca's property was up by 4.8% at 30 June 2011. Land values at Eucateca held stable and biological growth increased by US\$4.5 million. This was offset by increased silvicultural expenses required to correct the performance of the former manager, AP Servicos Agronomicos LTDA ("AP Servicos").

Net reserves against amounts due to the Company from AP Servicos have been increased by US\$242,000 at 30 June 2011. However, as part of the court-ordered reorganization plans, Eucateca has recovered R\$3.9 million worth of machinery and is diligently following up on the equipment which has not yet been returned.

**Aurora Forestal SA ("Aurora Forestal"):** The Company owns a significant minority investment in Aurora Forestal, which consists of mixed age pine plantations which are 100% FSC certified and a sawmill in northern Uruguay. Harvesting operations are on-going on the properties, and generate regular distributions to the



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Company, typically in the second half of the year. A co-generation plant, fuelled by waste products generated by Aurora Forestal's sawmill, is in the final stages of construction and is scheduled to come on line first quarter 2012 with almost all of its capacity already sold. Aurora Forestal has aggressively diversified its client base since the global financial crisis, especially increasing its sales in China. The value of the Company's investment in Aurora Forestal was up 2.12% in local currency at 30 June 2011. The US Dollar value of Aurora Forestal's property was up 2.20% at 30 June 2011.

**Pradera Roja SA ("Pradera Roja"):** The Company owns 100% of Pradera Roja, a greenfield project in Southern Uruguay, and has completed its planting program of eucalyptus plantations. The plantations continue to grow well, responding positively to silvicultural regimens like weed control and fertilization. Since March, the beginning of the rainy season, Pradera Roja has had good rain and moderate temperatures. In June, cattle grazing began on the plantations, which reduce weeds and fire risk. Limited harvesting is anticipated in 2012, and thinning operations are expected to commence in 2013. Full rotation harvesting is expected in 2023.

The value of the Company's investment in Pradera Roja was up 2.54% in local currency at 30 June 2011. The US Dollar value of Pradera Roja's property was up 4.67% at 30 June 2011.

**Greenwood Tree Farm Fund LP ("GTFF"):** The Company owns a significant minority position in GTFF, which consists of mixed age poplar plantations in the Northwestern US. Harvesting operations are on-going, and the project includes a state of the art sawmill. Market conditions are improving and the sawmill is operating one full shift. In June 2011, lumber prices for product sold from the mill reached a record high, 6% higher than the previous record set in July 2010. Additionally, recent wet weather conditions significantly reduced irrigation costs. The value of the Company's investment in GTFF was up 1.66% at 30 June 2011.

**Green China Forestry Company Limited ("Green China"):** The Company owns 100% of Green China, which consists of mixed age pine and fir plantations. Harvesting and resin-tapping operations are on-going on the properties. This is Phaunos' first year of full operation (including timber and resin selling) in Jiangxi. The Company has adopted a cautious approach with less than 5% of Phaunos invested in the highest quality assets available in Chinese forestry. Timber and resin prices are better than anticipated with volumes lower than forecast. The value of the Company's investment in Green China was down 4.11% at 30 June 2011, including the effect of foreign currency valuation. The US Dollar value of Green China's property in southern Jiangxi was down 1.93% at 30 June 2011. The loss is mainly attributable to cost levels relative to the scale of the operations. The Investment Manager is working with in-country service providers to restructure and reduce costs.

Unlike one of its main forestry competitors in China, Green China does not use any third party entities outside of the control of the Phaunos group to sell its products. As a result all revenue contracts held by the Green China operating subsidiary are transparent to the parent company, Phaunos, which allows a complete audit trail for all transactions. All Forestry Resource Certificates (forestry ownership documents) are centrally located in the Beijing office with electronic copies in Boston.

## FULL INVESTMENT

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The Company is fully invested, and has transitioned to its operational phase. Phaunos owns 100% of almost 55,000 hectares, and owns a partial interest in over half a million additional hectares via its minority holdings. Worldwide, portfolio companies employ almost 6,000 people, mostly on a part-time or consulting basis. Many more people are employed as contractors to the portfolio companies.

The Company is now focused on generating cash flow, cutting costs, and maximising efficiency. To this end, it is implementing a Forestry Information Management System ("FIMS") across the portfolio in order to standardise reporting and better manage the portfolio. The Investment Manager expects implementation of the system in first quarter 2012.

### FUTURE OUTLOOK

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The Company is invested in productive, tangible forest assets; it has no borrowings at the holding Company level and its forests are long term investments. As the world economies work unevenly toward recovery, the Investment Manager believes the Company's portfolio will continue to benefit from its broad diversification and its exposure to faster growing economies. For instance, some grades of New Zealand radiata pine logs are at higher prices than before the financial crisis (source: New Zealand Ministry of Agriculture and Forestry). Chips and pulpwood prices are up in the markets that affect our South American companies (sources: Wood Resources Quarterly, International Tropical Timber Organization). Pricing for resin, eucalyptus, and Chinese fir sawtimber continue to trend up and in some cases reach record high pricing (source: Wood Resources International). The US housing market remains depressed, though some wood prices are rising. The value of holding assets across broadly diverse markets should sustain the portfolio's cash flow and NAV over time and despite turbulent markets.

Additionally, the Company has been able to realise some of the carbon value which trees naturally store as they grow. Green Resources, which holds our assets in Africa, continues to break ground in the carbon market place. In June, its Kachung Forest Project in Uganda became Green Resources' first Clean Development Mechanism ("CDM") project to be registered by the United Nations Framework Convention on Climate Change ("UNFCCC"), a rigorous and exacting volume-driven process which takes years to fulfil. It was only the fifth Afforestation/Reforestation CDM project to be registered in Africa and is the first registered large-scale CDM project in Uganda. In July 2011, Green Resources signed a new sales agreement with the Carbon Neutral Company for the sale of carbon credits from its Tanzanian Uchindile and Mapanda plantations. In New Zealand, the Matariki Forestry Group has successfully sold over 285,000 New Zealand Units (each unit is a metric ton of carbon) under the New Zealand Emissions Trading Scheme since the end of December 2010, for approximately NZ\$5.7 million.

The Company's shares continue to trade at a discount to the net asset value per Ordinary Share. The Board of Directors has been engaged for some time in exploring how the discount might be reduced and has discussed possible actions with the Company's brokers and shareholders. A majority of shareholders have indicated they would prefer the Company to remain listed. Share buybacks have been tried and had no impact. Now the Company is fully invested, there is no spare cash to fund buybacks and borrowing for this purpose is not economically viable. Daily dealings in the Company's shares remain low.

When the current economic situation stabilises, the Directors believe continuing the Company's good performance with NAV growth, together with cash inflow from harvesting will support the payment of sustainable dividends. This, combined with a continued public relations programme to emphasise the value in the Company's assets should logically attract new investors and lead to a reduction in the discount over time.

### FOREIGN EXCHANGE

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The Company is US dollar-denominated. The currencies in which our largest investments are held (the New Zealand Dollar, the Brazilian Real, and the Norwegian Krone) all strengthened against the US Dollar over the period. Foreign exchange movement contributed US\$30.0 million to the Company's NAV at 30 June 2011. The Investment Manager believes that a portfolio broadly diversified in a range of currencies will be self-hedging over the long run. Timberland investing is a long-term investment. Under these circumstances the Directors believe that any benefits of hedging the portfolio are outweighed by the costs and consequently the Company does not hedge. The results at 30 June 2011 reflect the benefit of this policy. However, investors need to be aware that while the Company has benefited from a weakening US Dollar, a strengthening of the US Dollar would see these gains reversed.



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## CASH FLOW

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The cash held at 30 June 2011 was US\$46.7 million. The total dividend of US\$10.7 million was paid in July 2011. Of the balance US\$9.7 million is held within operating subsidiaries. While the Company is at full investment it is not forecast that the green field plantations of the portfolio will be cash generative within the next two years. The Directors are mindful of the need to minimise cash reserves while at the same time ensuring that the Company maintains sufficient liquidity to meet its liabilities in order to bring the portfolio to maturity.

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## ENVIRONMENTAL STEWARDSHIP

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The Company is committed to the highest environmental standards. We are systematically pursuing certification under FSC guidelines. Two properties are 100% certified, and a third is expected to be by year end. A fourth is scheduled to be certified in 2011-2012. We have focused on certifying plantations with standing timber and are rolling out a program with the younger plantations that will, we plan, achieve certification well before projected harvesting.

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## EFFECT OF IFRS ON REPORTED RESULTS

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It is important to note that, consistent with IFRS guidelines, wholly-owned operating company expenses (that is, costs associated with work on the plantations) are included in the Interim Condensed Consolidated Statement of Comprehensive Income, in addition to the Company level expenses. This can be misleading when one tries to compute the total expense ratio of the Company, since those expenses are, in fact, not Company level expenses and should not be included in an analysis of Company level expenses. The accounts have been split into two sections in Note 3 of the Interim Condensed Consolidated Financial Statements in order to provide investors with a more transparent view of actual costs associated with managing the Company, as well as costs associated with operating the wholly-owned investment projects. The Company level expenses, including an accrual for a potential performance fee after the year end audit at December 2011, are US\$14.0 million, or 2.25% of assets under management.

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## SHARE CAPITAL

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At 30 June 2011, the Company had 537,149,832 issued Ordinary Shares and 4,065,045 Ordinary Shares were held in treasury.

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## PRINCIPAL RISKS AND UNCERTAINTIES

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The principal risks facing the Company relate to the Company's investment activities. These risks are market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and capital management risk.

An explanation of these risks and how they are managed is contained in Note 30 of the Company's Annual Report and Consolidated Financial Statements for the year ended 31 December 2010 ("2010 Annual Report").

The principal risks and uncertainties to which the Company is exposed to, have not significantly changed since the publication of the 2010 Annual Report. However, the full implications of the economic uncertainties exposed in the summer of 2011 are yet to unfold.

The 2010 Annual Report is available on the Company's website at the following link:

[http://www.phaunostimber.com/documents/2010\\_Annual\\_Report\\_and\\_Financial\\_Statements\\_with\\_Notice\\_of\\_AGM.pdf](http://www.phaunostimber.com/documents/2010_Annual_Report_and_Financial_Statements_with_Notice_of_AGM.pdf)

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## GOING CONCERN

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The Directors confirm the use of the going concern basis in the preparation of the interim financial report. In this regard there are no new events or circumstances since the 2010 Annual Report.

### DIVIDENDS

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The Board of Phaunos is pleased to report that on 15 July 2011, the Company paid its first dividend of US\$0.02 gross per Ordinary Share in respect of the twelve months ended 31 December 2010. This dividend payment was pursuant to the resolution approved by the shareholders at the annual general meeting of the Company on 9 June 2011. The ex-dividend date for the dividend was 15 June 2011 and the record date was 17 June 2011. Given the dividend was declared prior to 30 June 2011, the Company has accrued dividends of US\$10.7 million at that date.

### PERFORMANCE FEES

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The Company has accrued at 30 June 2011 its first potential performance fee of US\$8.2 million or US\$0.0152 per Ordinary Share (based on the time-weighted average number of Ordinary Shares in issue since the initial admission of the Company's shares to the Alternative Investment Market), as the unaudited NAV per Ordinary Share at that date, as adjusted for the following items, exceeded the hurdle rate of US\$1.08:

- (i) any increase in NAV arising from the issue of Ordinary Shares as a premium or buy back of Ordinary Shares at a discount to NAV;
- (ii) dividends declared, announced or any undistributed net revenue not otherwise included in the NAV calculation;
- (iii) already accrued performance fees; and
- (iv) other adjustments the Audit Committee and Management Committee of the Board and the Investment Manager agree are appropriate.

The adjusted NAV per Ordinary Share for the purpose of calculating the performance fee accrual at 30 June 2011 was US\$1.1619.

Pursuant to the investment management agreement, a performance fee will only become due and payable to the Investment Manager as at 31 December 2011 and only if the audited NAV per Ordinary Share (adjusted as described above) as at 31 December 2011 exceeds US\$1.08.

Whilst a performance fee accrual has been made in the interim consolidated financial statements, discussions have begun between the Board and the Investment Manager to explore whether a different fee basis would align better for the interests of all stakeholders. The present basis was determined in 2006 when economic conditions were more optimistic and such structures more common. Shareholders will realise these discussions are complicated and have far reaching consequences. They are at an early stage. The outcome of discussions will be reported as soon as they have been concluded and it is unlikely to be before the end of the year.

### RELATED PARTIES

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There were no significant related party transactions during the period nor any material change to related party transactions described in the 2010 Annual Report. Please refer to Note 16 for details.

### VOTING RIGHTS FOR PORTFOLIO INVESTMENTS

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The Investment Manager carefully considers the exercise of voting rights in relation to the Company's portfolio and votes, or refrains from voting, based on a case by case examination, using its best commercial and financial judgment, of the best long-term interests of the Company and its shareholders.

Typically the Investment Manager will, when making voting decisions, examine the strategic focus and operating performance of the relevant portfolio company, its corporate governance and remuneration framework and its communications and reporting structures. Please note that Phaunos does not hold any investments in publicly traded companies.



## RESPONSIBILITY STATEMENT

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To the best of the knowledge of the Directors:

The Interim Financial Report for the six months ended 30 June 2011 gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and has been prepared in accordance with International Accounting Standards (IAS) 34 Interim Financial Reporting.

The Interim Management Report includes a fair review of the information required by:

- (a) DTR 4.2.7 of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
- (b) DTR 4.2.8 of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the enterprise during that period; and any changes in the related party transactions described in the last annual report that could do so.

Signed on behalf of the Board by:

Sir Henry Studholme  
Director

Ian Burns  
Director

30 August 2011





# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2011

	Note	30 June 2011 Unaudited US\$'000	30 June 2010 Unaudited US\$'000
<b>Income</b>			
Net gain on financial assets designated fair at fair value through profit or loss	8	36,715	4,002
Revaluation of biological assets	5	8,028	904
Operating income	2	6,292	5,379
		<b>51,035</b>	<b>10,285</b>
<b>Expenses</b>			
Operating expenses	3	(23,305)	(18,470)
<b>Operating profit/(loss) before taxation</b>		27,730	(8,185)
Tax charge on ordinary activities		(74)	(2)
<b>Profit/(loss) for the period</b>		<b>27,656</b>	<b>(8,187)</b>
<b>Other comprehensive income/(loss)</b>			
Revaluation of land	4	(1,773)	1,356
Exchange differences on translation of subsidiaries' net assets		11,528	(7,735)
		<b>9,755</b>	<b>(6,379)</b>
<b>Total comprehensive profit/(loss) for the period</b>		<b>37,411</b>	<b>(14,566)</b>
<b>Profit/(loss) for the period attributable to:</b>			
Equity holders of the parent		27,656	(8,187)
<b>Net profit/(loss) for the period attributable to Ordinary Shareholders</b>		<b>27,656</b>	<b>(8,187)</b>
<b>Other comprehensive income/(loss) attributable to:</b>			
Equity holders of the parent		9,755	(6,379)
<b>Net profit/(loss) for the period attributable to Ordinary Shareholders</b>		<b>9,755</b>	<b>(6,379)</b>
Earnings/(loss) per Ordinary Share for the period –			
Basic and Diluted (in US cents per share)		5.15	(1.64)
(Based on weighted average number of Ordinary Shares 537,149,832 (2010: 503,078,650))			

In arriving at the operating results for the period, all amounts above relate to continuing operations.

The notes on pages 19 to 31 form an integral part of these interim consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2011

	Note	30 June 2011 Unaudited US\$'000	31 Dec 2010 Audited US\$'000
<b>Non-Current Assets</b>			
Financial assets designated at fair value through profit or loss	8	361,213	323,680
Land	4	93,013	90,486
Biological assets	5	126,868	108,774
Plant and equipment	6	4,262	3,043
Prepaid land lease	7	1,620	1,617
Loans receivable	9	363	528
Intangible assets		1	1
		<b>587,340</b>	<b>528,129</b>
<b>Current Assets</b>			
Cash and cash equivalents		46,657	68,486
Receivables		8,334	2,742
Inventories and work in progress		244	210
		<b>55,235</b>	<b>71,438</b>
Assets classified as held for sale	10	8,224	9,547
<b>TOTAL ASSETS</b>		<b>650,799</b>	<b>609,114</b>
<b>Current Liabilities</b>			
Dividends payable	14	10,743	–
Accrual for potential performance fee	16	8,189	–
Payables – due within one year		9,820	13,446
		<b>28,752</b>	<b>13,446</b>
Liabilities classified as held for sale	10	456	745
<b>TOTAL LIABILITIES</b>		<b>29,208</b>	<b>14,191</b>

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**Equity**

Share capital	11,13	432,101	–
Share premium	13	–	432,101
Retained earnings		47,763	30,850
Foreign currency translation reserve		33,133	21,605
Land revaluation reserve		1,201	2,974
Distributable reserves	13	110,418	110,418
Purchase of own shares (Treasury Shares)	12	(3,025)	(3,025)

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<b>TOTAL EQUITY</b>		<b>621,591</b>	<b>594,923</b>
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<b>TOTAL EQUITY AND LIABILITIES</b>		<b>650,799</b>	<b>609,114</b>
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Ordinary Shares in Issue	13	537,149,832	537,149,832
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		<b>US\$</b>	<b>US\$</b>
Net Asset Value per Ordinary Share		1.16	1.11

The notes on pages 19 to 31 form an integral part of these interim consolidated financial statements.



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2011

	Note	30 June 2011 Unaudited US\$'000	30 June 2010 Unaudited US\$'000
<b>Operating activities</b>			
Net profit/(loss) for the period attributable to			
Ordinary Shareholders		27,656	(8,187)
Add: Depreciation and amortisation		2,208	340
Movement in accrual for potential performance fee	16	8,189	–
Impairment of inventory	3	–	464
Impairment of loans receivable	3	442	–
Taxation		74	2
Less: Net loss on financial assets designated at			
fair value through profit or loss	8	(36,715)	(4,002)
Revaluation of biological assets	5	(8,028)	(904)
Movement in inventories		(234)	(784)
Movement in receivables excluding accrued income		(5,592)	(694)
Movement in payables		(3,576)	(1,171)
Investment income	2	(2,151)	(4,756)
Prepaid land lease (non current)	7	(3)	–
<b>Net cash outflow from operating activities before income</b>		<b>(17,730)</b>	<b>(19,692)</b>
Investment income received	2	2,151	4,673
Taxation paid		(50)	(484)
<b>Net cash outflow from operating activities</b>		<b>(15,629)</b>	<b>(15,503)</b>
<b>Investing activities</b>			
Purchase of financial assets	8	(818)	(118,208)
Disposals of plant and equipment	6	174	12
Purchase of biological assets	5	(6,007)	(61,010)
Purchase of land	4	(60)	(32,222)
Purchase of plant and equipment	6	(503)	(129)
Repayment of loans		403	251
<b>Net cash outflow from investing activities</b>		<b>(6,811)</b>	<b>(211,306)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>68,486</b>	<b>331,032</b>
Decrease in cash and cash equivalents		(22,440)	(226,809)
Effect of foreign exchange rate changes		611	(1,380)
<b>Cash and cash equivalents at end of period</b>		<b>46,657</b>	<b>102,843</b>

The notes on pages 19 to 31 form an integral part of these interim consolidated financial statements.



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2011

	Attributed to equity holders of the parent							
	Share capital (Note 11, 13)	Share premium (Note 13)	Retained earnings	Foreign currency translation reserve	Land revaluation reserve	Distributable reserves (Note 13)	Purchase of own shares (Treasury Shares)	Total Equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>As at 1 January 2011</b>	-	432,101	30,850	21,605	2,974	110,418	(3,025)	594,923
Profit for the period	-	-	27,656	-	-	-	-	27,656
Other comprehensive income	-	-	-	11,528	(1,773)	-	-	9,755
<b>Total comprehensive income for the period</b>	-	-	<b>27,656</b>	<b>11,528</b>	<b>(1,773)</b>	-	-	<b>37,411</b>
Dividends (Note 14)	-	-	(10,743)	-	-	-	-	(10,743)
Transfer of share premium to share capital (Note 13)	432,101	(432,101)	-	-	-	-	-	-
<b>At 30 June 2011 (unaudited)</b>	<b>432,101</b>	-	<b>47,763</b>	<b>33,133</b>	<b>1,201</b>	<b>110,418</b>	<b>(3,025)</b>	<b>621,591</b>

The notes on pages 19 to 31 form an integral part of these interim consolidated financial statements.



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2010

	Attributed to equity holders of the parent									
	Share capital	Share premium	C Share class	Retained earnings	Foreign currency translation reserve	Land revaluation reserve	Distributable reserves (Note 13)	Purchase of own shares (Treasury Shares)	Total Equity	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>As at 1 January 2010</b>	-	390,547	41,554	10,136	14,749	10,659	110,418	(3,025)	575,038	
Loss for the period	-	-	-	(8,187)	-	-	-	-	(8,187)	
Other comprehensive loss	-	-	-	-	(7,735)	1,356	-	-	(6,379)	
<b>Total comprehensive loss for the period</b>	-	-	-	<b>(8,187)</b>	<b>(7,735)</b>	<b>1,356</b>	-	-	<b>(14,566)</b>	
Adjustment to prior period treasury share value	-	-	-	(216)	-	-	-	216	-	
C shares converted to Ordinary Shares	-	41,554	(41,554)	-	-	-	-	-	-	
<b>At 30 June 2010 (unaudited)</b>	-	<b>432,101</b>	-	<b>1,733</b>	<b>7,014</b>	<b>12,015</b>	<b>110,418</b>	<b>(2,809)</b>	<b>560,472</b>	

The notes on pages 19 to 31 form an integral part of these interim consolidated financial statements.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2011

## 1. ACCOUNTING POLICIES

### (a) Basis of Preparation

The unaudited interim condensed consolidated financial statements ("interim consolidated financial statements") of Phaunos Timber Fund Limited (the "Company" or "Phaunos") have been prepared in accordance with International Accounting Standard ("IAS") 34: *Interim Financial Reporting*. The interim consolidated financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Company's Annual Report and Consolidated Financial Statements for the year ended 31 December 2010 ("2010 Annual Report"), which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and applicable Guernsey law.

The interim consolidated financial statements are presented in US Dollars, being the currency of the primary economic environment in which the Company and entities controlled by the Company (its subsidiaries as listed in Note 13 of the 2010 Annual Report ("subsidiaries")) (the "Group") operate.

The interim consolidated financial statements are rounded to the nearest thousand US Dollars (US\$'000) except where otherwise indicated.

The interim consolidated financial statements have not been audited or reviewed by the auditors in accordance with the Auditing Practices Board guidance on Review of Interim Financial Information Performed by the Independent Auditor of the Entity.

### (b) Significant Accounting Policies

The same accounting policies, presentation and methods of computation are followed in the interim consolidated financial statements as were followed in the preparation of the 2010 Annual Report.

## 2. OPERATING INCOME

	<b>30 June 2011</b>	<b>30 June 2010</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Investment income	2,151	4,756
Income from sales and services	3,570	605
Reversal of impairment of loans receivable (a)	442	–
Sundry income	129	18
	<b>6,292</b>	<b>5,379</b>

(a) Please refer to Note 9 for details on the reversal of prior year impairments to loans receivable relating to Eucateca.

### 3. OPERATING EXPENSES

	30 June 2011 Unaudited US\$'000	30 June 2010 Unaudited US\$'000
<b>Holding Company Expenses</b>		
Performance fees (a)	8,189	–
Investment Manager's fees	4,759	3,932
Foreign exchange loss	28	9,134
Other operating expenses	1,023	1,190
	<b>13,999</b>	<b>14,256</b>
<b>Operating Subsidiary Expenses</b>		
Setting up expenses	–	375
Direct operating costs	3,860	855
Other operating expenses (b)	5,446	2,984
	<b>9,306</b>	<b>4,214</b>
	<b>23,305</b>	<b>18,470</b>

(a) Performance fees for the period are accrued not paid (see Note 16).

(b) Please refer to Note 9 for details on current period impairments and write-offs to plant and equipment relating to Eucateca.

Consistent with IFRS, operating expenses associated with wholly-owned subsidiaries are included in Note 3, along with expenses associated with holding Company activities. Holding Company expenses, including the accrual for a potential performance fee, total US\$14.0 million, or 2.25% of assets under management.



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the six months ended 30 June 2011

## 4. LAND

	30 June 2011 Unaudited US\$'000	31 Dec 2010 Audited US\$'000
<b>Cost</b>		
Opening cost	78,845	46,238
Additions	60	32,607
<b>Closing cost</b>	<b>78,905</b>	<b>78,845</b>
<b>Revaluation of land</b>		
Opening	2,974	10,659
Revaluation for the period/year	(1,773)	(7,685)
<b>Closing</b>	<b>1,201</b>	<b>2,974</b>
<b>Depreciation on land improvements</b>		
Opening depreciation	(20)	–
Charge for the period/year	(12)	(20)
<b>Closing depreciation</b>	<b>(32)</b>	<b>(20)</b>
<b>Reclass as Held for Sale</b>	(278)	(278)
<b>Exchange differences</b>	13,217	8,965
<b>Closing carrying value</b>	<b>93,013</b>	<b>90,486</b>

### Land valuation

The Investment Manager's valuations at 30 June 2011 for Eucateca and Pradera are based on the Brazilian Real per hectare unit values and the US Dollar per hectare unit values respectively from the external appraisal of that land at 30 September 2010 and applied to the updated number of hectares at 30 June 2011.

Land purchased by Mata Mineira is based on a Brazilian Real value determined by an independent external appraisal dated 30 June 2011.

Consistent with IFRS, Note 4 includes only the revaluation of land in wholly-owned subsidiaries. Land valuations in minority holdings are included in the Financial Asset calculation as demonstrated in Note 8.

## 5. BIOLOGICAL ASSETS

	30 June 2011 Unaudited US\$'000	31 Dec 2010 Audited US\$'000
<b>Cost:</b>		
Opening cost	102,691	20,755
Costs incurred during the period/year:		
Silviculture costs	5,543	13,105
Treatment costs	508	2,086
Plantations acquired	–	67,727
Other costs	(44)	54
Depletion of timber	(1,511)	(1,023)
Resin amortisation	(129)	–
Disposals	–	(13)
	<b>4,367</b>	<b>81,936</b>
<b>Closing cost</b>	<b>107,058</b>	<b>102,691</b>
<b>Revaluation of plantations:</b>		
Opening balance	(198)	(1,133)
Revaluation for the period/year	8,028	935
<b>Closing balance</b>	<b>7,830</b>	<b>(198)</b>
<b>Exchange differences</b>	11,980	6,281
<b>Closing carrying value</b>	<b>126,868</b>	<b>108,774</b>

### Biological assets valuation

The Investment Manager's valuations at 30 June 2011 for Eucateca and Pradera are based on the Brazilian Real per hectare unit values and the US Dollar per hectare unit values from the external appraisal of the biological assets at 30 September 2010 and applied to the updated number of hectares for each age class of pre-merchantable timber in existence at 30 June 2011.

Biological assets purchased by Mata Mineira are based on a Brazilian Real value determined by an independent external appraisal dated 30 June 2011.

Green China's biological assets located in southern Jiangxi, China are based on the Investment Manager's valuation at 31 December 2010 which is an update of the acquisition appraisal of that property acquired during 2010. Green China's biological assets located in northern Jiangxi, China are valued at cost at 30 June 2011 as it was acquired less than 12 months ago.

Consistent with IFRS, Note 5 includes only the revaluation of biological assets on wholly-owned subsidiaries. Biological asset valuations in minority holdings are included in the Financial Asset calculation as demonstrated in Note 8.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the six months ended 30 June 2011

## 6. PLANT AND EQUIPMENT

	30 June 2011 Unaudited US\$'000	31 Dec 2010 Audited US\$'000
<b>Cost</b>		
Opening cost	13,292	10,650
Additions	503	3,116
Disposals	(174)	(24)
Impairment	(565)	(450)
<b>Closing cost</b>	<b>13,056</b>	<b>13,292</b>
<b>Depreciation</b>		
Opening depreciation	(1,166)	(491)
Charge for the period/year	(303)	(687)
Disposal adjustments	24	12
<b>Closing depreciation</b>	<b>(1,445)</b>	<b>(1,166)</b>
<b>Reclass as Held for Sale</b>	<b>(6,992)</b>	<b>(7,796)</b>
<b>Exchange differences</b>	<b>(357)</b>	<b>(1,287)</b>
<b>Closing carrying value</b>	<b>4,262</b>	<b>3,043</b>

## 7. PREPAID LAND LEASE

	30 June 2011 Unaudited US\$'000	31 Dec 2010 Audited US\$'000
Opening cost	1,790	–
Land lease prepayments during the period/year	–	1,790
<b>Closing cost</b>	<b>1,790</b>	<b>1,790</b>
<b>Lease amortisation:</b>		
Opening balance	(41)	–
Amortisation for the period/year	(53)	(41)
<b>Closing balance</b>	<b>(94)</b>	<b>(41)</b>
<b>Exchange differences</b>	<b>(25)</b>	<b>56</b>
<b>Closing carrying value</b>	<b>1,671</b>	<b>1,805</b>
Summary of prepayments due:		
Prepayments due to expire within one year	51	188
Prepayments due to expire more than one year	1,620	1,617
<b>Closing cost</b>	<b>1,671</b>	<b>1,805</b>

Through the Company's wholly owned subsidiary, Green China, prepayments were made during the period for timberland leases for property located in the Jiangxi province, China. All leases are to be amortised over the life of the remaining lease terms which varies from 30 to 50 years.



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the six months ended 30 June 2011

## 8. INVESTMENTS

<b>FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>30 June 2011 Unaudited US\$'000</b>	<b>31 Dec 2010 Audited US\$'000</b>
Opening Portfolio cost	264,253	127,959
Net additions at cost:	818	136,294
<b>Closing Portfolio cost</b>	<b>265,071</b>	<b>264,253</b>
Unrealised appreciation on valuation brought forward	46,761	15,492
Unrealised appreciation on valuation for the period/year	18,190	31,269
Unrealised foreign exchange movement brought forward	11,922	(486)
Unrealised foreign exchange movement for the period/year	18,525	12,408
Unrealised appreciation and foreign exchange movement on valuation carried forward	95,398	58,683
Exchange differences on translation of assets of foreign subsidiaries brought forward	744	–
Exchange differences on translation of assets of foreign subsidiaries for the period/year	–	744
<b>Closing valuation</b>	<b>361,213</b>	<b>323,680</b>
Unrealised appreciation and foreign exchange movement on valuation for the period/year	36,715	43,677
Exchange differences on translation of assets of foreign subsidiaries	–	744
<b>Net gain on financial assets designated at fair value through profit or loss</b>	<b>36,715</b>	<b>44,421</b>

The nature of the investments designated at fair value through profit or loss is as follows:

GreenWood Tree Farm Fund LP	Timber operation
Aurora Forestal Limited	Joint owned timber operation
NTP Timber Plus Fund I LP	Higher-and-better-use conversion loans
Green Resources AS	Timber operation
Matariki Forestry Group	Timber operation
Masarang Foundation Asset Linked Euro Note 09/2012	Loan

## 8. INVESTMENTS CONTINUED

### Fair value analysis

In the opinion of the Directors there is no material difference between the book values and the fair values of other financial assets and liabilities.

Financial assets and financial liabilities recorded at fair value are analysed by using a fair value hierarchy that reflects the significance of inputs. The fair value hierarchy has the following levels:

- Level 1: Quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for assets or liabilities that are not based on observable market data (that is, unobservable inputs).

The Group's unlisted securities, classified as financial assets designated at fair value through profit or loss and valued at US\$361.2 million at 30 June 2011 (31 December 2010: US\$323.7 million), were categorised as Level 3 inputs in accordance with the fair value hierarchy.

Inputs for the determination of the fair values of financial assets designated as Level 3 include valuations provided by the managers of all the underlying investments at the period end. There were no transfers of financial assets between Levels during the period. The table below reflects the movements in assets designated as Level 3 during the course of the period.

	<b>30 June 2011</b> <b>Unaudited</b> <b>US\$'000</b>	<b>31 Dec 2010</b> <b>Audited</b> <b>US\$'000</b>
Fair value at beginning of period/year	323,680	142,965
Acquisitions at cost	818	136,294
Unrealised appreciation	36,715	43,677
Exchange differences on translation of foreign subsidiaries	–	744
<b>Fair value at end of period/year</b>	<b>361,213</b>	<b>323,680</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## for the six months ended 30 June 2011

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### 9. LOANS RECEIVABLE

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At 30 June 2011 the balance of the loan receivable from AGN Gestao Florestal LTDA is US\$493,000 (R\$769,000) (31 December 2010: US\$592,000 (R\$983,000)). In respect of the loan receivable from AP Servicos Agronomicos LTDA ("AP Servicos") the balance at 30 June 2011 is US\$2.0 million (R\$3.1 million) (31 December 2010: US\$2.3 million (R\$3.8 million)).

During the period, Eucateca assessed the recoverability of the reorganised loan to AP Servicos. It was decided by the Investment Manager to reinstate transfer equipment valued at R\$400,000, which was previously reserved by Eucateca at 31 December 2010. Additionally AP Servicos repaid R\$313,073 against the reorganised loan. As a result the reorganised loan and related reserve were reduced by a total of R\$713,073 (US\$442,000). This represents a reversal of prior year impairments to loans receivable which is shown in Note 2.

Also during the period, the Investment Manager determined total impairments to equipment received in the loan reorganisation of R\$882,498 (US\$565,342) and total losses to write-off of R\$193,154 (US\$119,823). The impairments to equipment represent adjustments to fair market value for equipment received during the period and reserves for equipment not yet received from AP Servicos. The written-off losses relate to adjustments to the correct purchase price and equipment deemed inoperable. These impairments and losses are included in other operating expenses for subsidiaries in Note 3.

### 10. ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE

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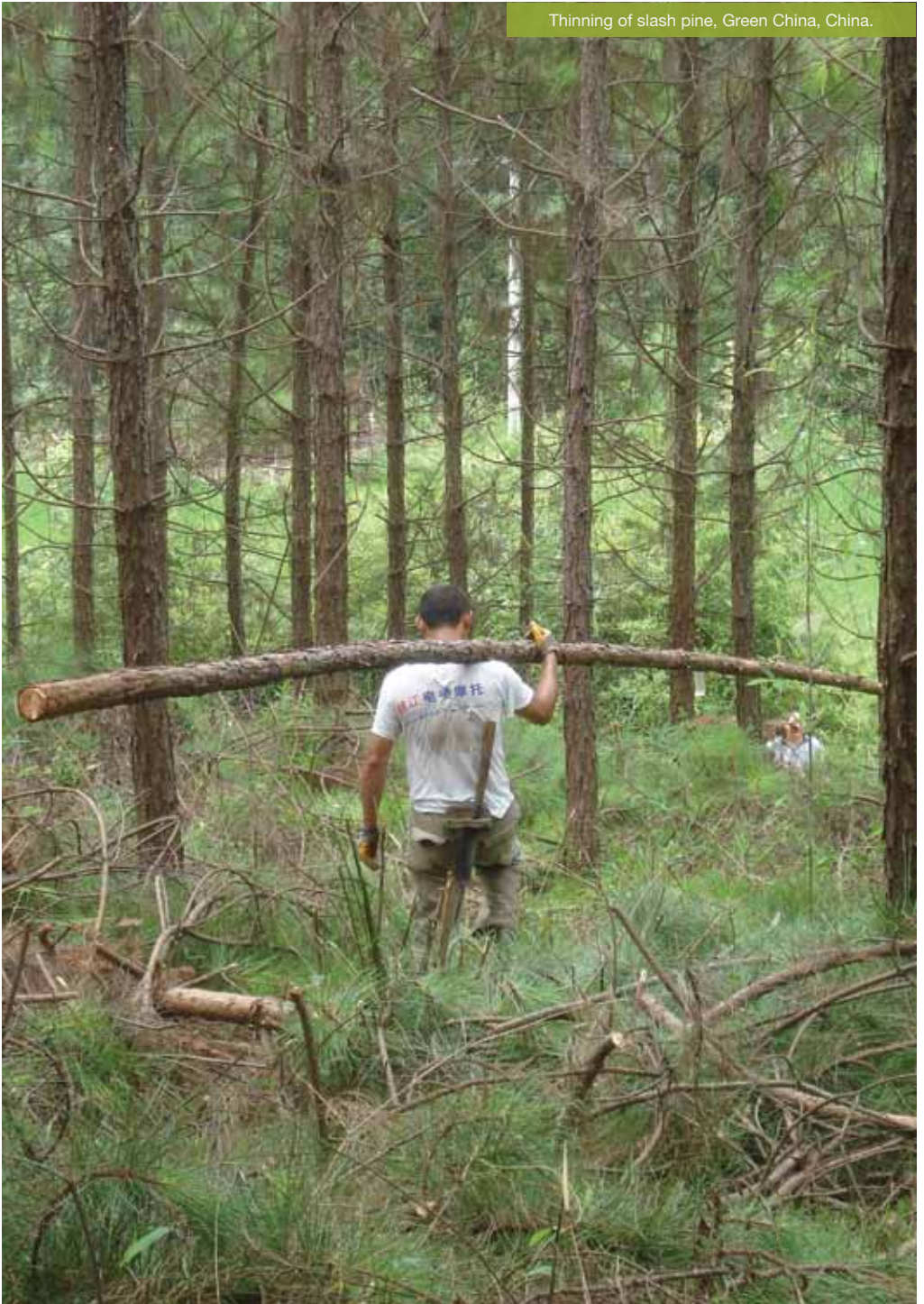
Forest Enterprises is currently held for sale following the strategic decision in 2010 by the Investment Manager to divest of non-core assets. However, during the period the Investment Manager decided to continue operating Caldrey as a going concern. As a result the following balances reported at 30 June 2011 relate solely to Forest Enterprises: Assets classified as held for sale US\$8.2 million (31 December 2010: US\$9.5 million) and Liabilities classified as held for sale US\$456,000 (31 December 2010: US\$745,000).

#### **Forest Enterprises d.o.o. ("FE doo")**

FE doo is the wholly-owned subsidiary of Forest Enterprise B.V. ("FE BV"), which in turn is a wholly-owned subsidiary of Phaunos. After FE doo is sold, FE BV will be liquidated. In November 2010, FE BV hired Citadel Financial Advisory d.o.o, Beograd (the "Financial Advisor") to take all necessary steps to manage and execute the sale of FE doo. To date, interested parties have executed a Non-Disclosure Agreement. The Financial Advisor has invited bids from a limited number of interested parties and received one non-binding offer which is under consideration. At the end of the period, we are unable to predict the sale price or fee payable to the Financial Advisor for successfully completing the FE doo sale transaction.

#### **Caldrey**

As of 31 December 2010 the Investment Manager anticipated the sale of Caldrey as a private transaction and Phaunos was in negotiations with an individual interested in purchasing Caldrey. The potential buyer was unable to obtain financing; therefore the Investment Manager intends to continue operating Caldrey as a going concern. During negotiations, Caldrey continued operations at full production, which is reflected in the period's consolidated financial statements as operating activity.



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED for the six months ended 30 June 2011

## 11. SHARE CAPITAL

### Authorised, issued and fully paid

As at 30 June 2011 and 31 December 2010:

Unlimited Ordinary Shares of no par value

US\$

–

	Number of shares	Amount US\$'000
At 30 June 2011:		
Ordinary Shares	541,214,877	559,758
Purchase of Ordinary Shares (now held in Treasury)	(4,065,045)	(2,819)
	<b>537,149,832</b>	<b>556,939</b>

The holders of the Ordinary Shares will, under general law, be entitled to participate in any surplus assets in a winding-up only in proportion to their shareholdings in the appropriate class.

On 8 June 2010, 43,510,000 C Shares were converted into 38,815,271 Ordinary Shares and were admitted to the Official List of the UK Listing Authority, to trading on the London Stock Exchange and to listing on the Channel Islands Stock Exchange. The C Shares were converted to Ordinary Shares at a conversion ratio of 0.8921 based on the audited NAV of the respective share classes at 31 December 2009, and in accordance with the Articles of Association of the Company.

## 12. PURCHASE OF OWN SHARES

	30 June 2011 Unaudited US\$'000	31 Dec 2010 Audited US\$'000
<b>Treasury shares reserve at end of period/year</b>	<b>3,025</b>	<b>3,025</b>

The Treasury Shares reserve at the end of the period represents 4,065,045 Ordinary Shares (31 December 2010: 4,065,045 Ordinary Shares) purchased in the market at various prices per share ranging from US\$0.64 to US\$0.80 and held by the Company in Treasury. These shares may be reissued or cancelled.

At the Annual General Meeting of the Company held on 9 June 2011, it was resolved that the Company be authorised to make market purchases of Ordinary Shares, provided that the number of Ordinary Shares purchased does not exceed 14.99% of the number of Ordinary Shares in issue on the date the resolution was passed.



## 12. PURCHASE OF OWN SHARES CONTINUED

The number of Ordinary Shares in issue at the date the resolution was passed was 537,149,832. The number of Ordinary Shares held in treasury by the Company at the date the resolution was passed was 4,065,045 representing 0.75% of the Ordinary Shares in issue at the date the resolution was passed.

The Company's authority to make purchases of its issued Ordinary Shares will expire at the conclusion of the 2012 Annual General Meeting. A renewal of such authority to make purchases of Ordinary Shares will therefore be sought from shareholders at the 2012 Annual General Meeting. Under such authority, the Directors only intend to purchase shares where they believe such purchases will result in an increase in the NAV per Ordinary Share and will assist in narrowing any discount to the NAV per Ordinary Share at which the shares may be trading. When Ordinary Shares trade at a substantial discount to the NAV per Ordinary Share and do not coincide with trading volumes in the market, the Directors may feel that it is appropriate to exercise such authority.

## 13. DISTRIBUTABLE RESERVES

The Company's Articles of Incorporation were amended during the period to reflect changes in the Company (Guernsey) Law, 2008 as amended (the "Law") relating to distributable reserves. As a result of the change in the Law, there is no longer a requirement to seek court approval to make distributions from the share premium account; therefore, the balance held to this account is now eligible for distribution together with existing distributable reserves.

The balance of the share premium account as at 1 January 2011 of US\$432.1 million and the distributable reserves as at that date of US\$110.4 million are all available for distribution subject to meeting the relevant solvency tests in the Law. The existing balance on the share premium account has been transferred to share capital as the Law now requires proceeds of shares issued to be credited to share capital. This brings total distributable reserves at 30 June 2011 to US\$542.5 million.

## 14. DIVIDENDS

The following dividends were declared by the Company and approved by shareholders during the period and paid after the end of the reporting period. The dividends have been accrued at 30 June 2011.

	<b>30 June 2011</b> <b>Unaudited</b> <b>US\$'000</b>	<b>31 Dec 2010</b> <b>Audited</b> <b>US\$'000</b>
<b>Dividend for the year ended 31 December 2010</b>		
<b>US\$0.02 per Ordinary Share (2010: US\$ Nil)</b>	<b>10,743</b>	<b>–</b>

## 15. CAPITAL COMMITMENTS

At the period end, the Group has outstanding non-contractual commitments of up to US\$4.3 million (31 December 2010: US\$5.0 million), which are subject to due diligence.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the six months ended 30 June 2011

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## 16. RELATED PARTIES

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Liane Luke is a senior consultant in the Investment Manager's group. Kimberly Tara is a director and shareholder of the Investment Manager. As Liane Luke and Kimberly Tara are also Directors, it is the Company's policy that they are not members of the Management Engagement Committee or the Audit Committee of the Board.

US\$4.8 million (30 June 2010: US\$3.9 million) of costs were incurred by the Company with the Investment Manager in the period, of which US\$ Nil (31 December 2010: US\$ Nil) was outstanding to this related party as at 30 June 2011. Given management fees are paid in advance on a quarterly basis during the period, the Company had paid net US\$2.2 million (31 December 2010: US\$ Nil) to the Investment Manager at 30 June 2011. The Board has agreed to pay the Investment Manager US\$36,400 in respect of financial reporting and consolidation work for the Company.

Under the terms of the investment management agreement with the Investment Manager, the Investment Manager is entitled to receive a base fee together with reimbursement of reasonable expenses incurred by it in the performance of its duties. The base fee is equal to 0.375% per quarter of the NAV of the Company, calculated quarterly and payable in advance, using an implied straight-line increase in NAV of 10% per annum on a basis which increases at 2.5% per quarter.

As the quarterly calculation is based on an estimated NAV, following the calculation of the audited NAV at the end of each financial period, the base fee payable over such financial period will be recalculated and any deficiency will be payable by the Company to the Investment Manager. To the extent that such post-audit recalculation demonstrates that an excess fee has been paid, any such amount will be deducted from the payment due to the Investment Manager in respect of subsequent periods, up until the amount equal to the excess has been repaid.

The Company has accrued at 30 June 2011 its first potential performance fee of US\$8.2 million or US\$0.0152 per Ordinary Share (based on the time-weighted average number of Ordinary Shares in issue since the initial admission of the Company's shares to the Alternative Investment Market), as the unaudited NAV per Ordinary Share at that date, as adjusted for the following items, exceeded the hurdle rate of US\$1.08:

- (i) any increase in NAV arising from the issue of Ordinary Shares as a premium or buy back of Ordinary Shares at a discount to NAV;
- (ii) dividends declared, announced or any undistributed net revenue not otherwise included in the NAV calculation;
- (iii) already accrued performance fees; and
- (iv) other adjustments the Audit Committee and Management Committee of the Board and the Investment Manager agree are appropriate.

The adjusted NAV per Ordinary Share for the purpose of calculating the performance fee accrual at 30 June 2011 was US\$1.1619. Pursuant to the investment management agreement, a performance fee will only become due and payable to the Investment Manager as at 31 December 2011 and only if the audited NAV per Ordinary Share (adjusted as described above) as at 31 December 2011 exceeds US\$1.08.

## 17. EVENTS AFTER THE BALANCE SHEET DATE

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- On 1 August 2011, Phaunos received a distribution of US\$2.5 million from Matariki.
- On 15 July 2011, Phaunos paid a total dividend of US\$10.7 million to the Ordinary Shareholders of the Company.

## SCHEDULE OF INVESTMENTS

Name of investment	Nature of investment	Fair Value US\$'000	30 June 2011	31 Dec 2010
			Unaudited	Audited
			Total Net Assets %	Total Net Assets %
Matariki Forestry Group	Timber operation	174,193	28.02	24.73
Green Resources AS	Timber operation	104,283	16.78	16.15
Greenwood Tree Farm Fund LP	Timber operation	37,269	5.99	6.02
Aurora Forestal Limited	Timber operation	34,547	5.56	5.69
NTP Timber Plus+ Fund I, LP	Higher-and-better-use conversion	10,921	1.76	1.82
Masarang Foundation Asset Linked Euro Note 09/2012	Loan	–	–	–
<b>Total financial assets designated at fair value through profit or loss</b>		<b>361,213</b>	<b>58.11</b>	<b>54.41</b>
Other non-current assets		226,127	36.38	34.36
Other net current liabilities		(12,406)	(2.00)	(0.28)
Cash and cash equivalents		46,657	7.51	11.51
<b>Total NAV</b>		<b>621,591</b>	<b>100.00</b>	<b>100.00</b>

## SHAREHOLDER INFORMATION

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The Ordinary Shares are traded on the Main Market of the London Stock Exchange and on the Channel Islands Stock Exchange. The Ordinary Shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf. The buying and selling of Ordinary Shares may be settled through CREST.

The ISIN, SEDOL and the LSE mnemonic of the Ordinary Shares are:

ISIN	SEDOL	LSE mnemonic
GG00B1G3RS66	B1G3RS6	PTF

## SHAREHOLDER ENQUIRIES

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The Company's CREST compliant registrar is, as at the date of publication of these interim consolidated financial statements, Capita Registrars (Guernsey) Limited, who maintains the Company's registers of shareholders. They may be contacted by telephone on +44 (0)1534 847445.

For information about investing in the Company contact [info@fourwindscm.com](mailto:info@fourwindscm.com)

## DIRECTORS AND SERVICE PROVIDERS

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### Registered Office

Arnold House  
St Julian's Avenue  
St Peter Port  
Guernsey  
GY1 3NF

### Directors

Keith Oates – Chairman  
Ian Burns – Appointed 1 March 2011  
Liane Luke  
Martin Ricketts – Appointed 5 January 2011  
Sir Henry Studholme – Appointed 5 January 2011  
Kimberly Tara  
Sarah Evans – Resigned 5 January 2011  
Peter Niven – Resigned 5 January 2011

### Investment Manager

FourWinds Capital Management  
Scotia Centre  
PO Box 268GT  
George Town  
Grand Cayman  
Cayman Islands

### Corporate Broker (to 5 January 2011)

Collins Stewart Europe Limited  
88 Wood Street  
London  
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### Joint Corporate Broker (from 5 January 2011)

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### Auditors

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Royal Chambers  
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### Administrator

HSBC Securities Services (Guernsey) Limited  
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### Sponsor to CISX Listing

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### Registrar

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### Joint Corporate Broker (from 5 January 2011)

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(as to Guernsey Law)  
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**UK Transfer Agent**

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**Solicitors to the Company**

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